CANADA

Prices and incomes commission

Commission des prix et des revenus

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WHOLESALE AND RETAIL MILK PRICES
OTTAWA AREA

Prices and Incomes Commission

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FOREWORD

Following discussions with representatives of the Canadian business community, the Prices and Incomes Commission called a National Conference on Price Stability in order to obtain a consensus on a national policy to combat inflation. Those present at the conference, held in Ottawa on Feb. 9-10, indicated a willingness to exercise a meaningful degree of restraint in their pricing policies in 1970. There was broad agreement that business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970 and would ensure that price increases were clearly less than the amount needed to cover the increases in costs at a normal volume of output and sales.

Provision was made at the conference for the Prices and Incomes Commission to review price increases to determine whether they comply with these criteria.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, 1970, participating governments endorsed the Commission's plan.

Governments expressed the hope that sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria.

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Background

The three principal dairies serving the Ottawa market are Clark Dairy Ltd., Dominion Dairies Ltd. (Sealtest) and the Borden Company Ltd. A number of price increases for fluid milk and other dairy products were implemented by them on July 6, 1970. Subsequently the Commission announced that it would conduct a price review.

Detailed financial data were provided by the three companies at the Commission's request. In the case of Borden's and Dominion Dairies, 1969 was used as the base year. Because Clark's financial results during fiscal 1969-70 varied sharply from the company's historical pattern, the fiscal year 1968-69 was adopted as a more suitable base.

According to published data the combined wholesale and home delivery market for milk in the city of Ottawa is approximately 41,000,000 quarts annually. The three dairies named above have similar shares of the total market.

Price Changes

The following price increases were implemented:

Percentage Increases in Milk Prices

Size of Container	Range of Wholesale Price Increases	Range of Home Service Price Increases
	(Percentages)	
Homogenized		
Bulk gallons	3.2	2.9
3 quart	3.4-7.1*	3.8
2 quart	1.6	2.9
1 quart	1.0	2.7
Two-Per-Cent Milk		
Bulk gallons	3.3	3.0
3 quart	3.6-7.4*	3.9
2 quart	1.7	2.9
1 quart	1.6	2.8
Skim		
Bulk gallons	2.6-3.5	2.6
2 quart	1.8	1.8-3.2
1 quart	1.7-3.5	3.1-3.5

*One of the dairies under review had maintained significantly lower prices than the other two dairies for certain kinds of milk in three-quart containers. When this dairy increased its prices for these items, it eliminated the price differentials.

On the basis of the existing product mix, the higher prices are likely to increase annual sales revenues by about 2.3 per cent. Because the increases were introduced during July the companies will realize slightly less than half this amount in 1970 in incremental revenues.

Cost Factors

Raw milk is the principal cost element in milk processing and accounts for approximately 60 per cent of total costs. There have been no price increases this year in the class of raw milk used to manufacture homogenized, two-per-cent or skim milk.

Labor costs are next in magnitude. All three companies experienced strikes by delivery men earlier this year which reduced expected revenues by an average of about four per cent. The settlements were similar for the three firms and resulted in increases in wages of delivery men of $7, $5 and $7 per week effective Jan. 1, 1970, Sept. 1, 1970, and May 1, 1971, respectively.

Existing collective agreements with in-plant workers are due to expire late this year and will be up for negotiation at that time. The final contractual pay increase under the existing agreement was effective March 15 and averaged six per cent.

The effective increase in pay for inside workers and delivery men combined is approximately seven per cent for the calendar year 1970.

Additional cost increases have taken place during 1970 for such items as power, independent delivery costs and municipal taxes.

Conclusion

Net earnings for all three dairies in the first half of 1970 were below earnings as a percentage of sales during the first half of the base periods. It is estimated that the net additional revenues which are likely to be realized by the three companies combined from the price increases will amount to about $185,000 during 1970. This is far short of budgeted cost increases for 1970. The same relationship holds true when cost and revenue comparisons are made for the companies individually. Their price increases are therefore within the price-restraint criteria.